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Time to reduce deficits, debts

THE data on the performance of the Malaysian economy from January to March this year has been released. Had it not been for the thriving performance of domestic demand, the economy would have slipped further from the average market expectation.

Although the 4.1 per cent Gross Domestic Product (GDP) growth recorded in the first quarter of this year is below the consensus forecast, Bank Negara believes that the growth projection of 5 to 6 per cent for the whole of this year is still within reach.

Furthermore, the slower growth should not be seen as a great concern as this is in line with the trend in this region. The biggest economy in Southeast Asia, Indonesia, for instance, expanded only at 6.2 per cent in the first quarter this year, which is the slowest since 2010.

For the first time since the last six quarters, Malaysia's GDP growth fell below 5 per cent. But this time around, the domestic demand has grown at a stronger pace of 8.2 per cent, as compared with 7.8 per cent in the last quarter of last year.

There are four components in the domestic demand category, consumption, both public and private, and public and private investments. Of these, my main concern is private investment, as I believe the way forward for the Malaysian economy to become a high-income and developed status is by private-led initiatives.

At the same corresponding period a year ago, private investment grew at 19.8 per cent, and for this year, it is only at 10.9 per cent. Thus, more attention needs to be focused in this aspect.

On the supply side, the construction sector remains the main contributor towards the share of the GDP. Mining was in the negative territory while manufacturing slowed steadily.

Other sectors have grown at fairly sustainable rates. Certainly, the Malaysian economic structure needs to undergo transformation to speed up the contribution of the services sector to GDP as it only grew at 5.9 per cent in the first quarter this year.

Overall, the weak external sector remains a concern. The somewhat modest growth of the global economy is testimony to this. This is mainly due to the slower growth in China and uncertainties in the Eurozone economies.

This has significantly dented the performance of our export growth and the Industrial Production Index (IPI).

But the story is different in the US and Japan where some sign of improvements can be seen. The US economy for example, is expected to grow at a healthy pace at more than 2 per cent this year. And due to "Abenomics", Japanese economy has gained its momentum from a long dread of recession.

Moving forward, I am optimistic that the targeted GDP growth rate is within reach. This is based on several reasons.

One, the 13th General Election is over. That means the uncertainties surrounding it have been removed. Investors are more upbeat on the prospect of the continuation of the National Transformation Policy (NTP) agenda by the ruling government, Barisan Nasional (BN) in the form of the New Economic Model (NEM), the Economic Transformation Programme (ETP), and the Government Transformation Programme (GTP).

Second, the new Cabinet line-up showed the seriousness of Prime Minister Datuk Seri Najib Razak to transform the economy into a high-income and developed economy by 2020.

The appointment of technocrats such as the former president and chief executive officer of the Maybank Group, Datuk Seri Abdul Wahid Omar as Minister in the Prime Minister's Department is a definite boost.

The challenges would be to fulfil the promises made during the election in a fiscally sustainable and responsible manner.

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